

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 INR-07 L-02

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 /083 W

----- 054561

R 061514Z FEB 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7763

INFO AMEMBASSY BERLIN

USMISSION USBERLIN

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

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E.O. 11652: N/A

TAGS: PINT, GW

SUBJECT: THE POLITICS OF TAX REFORM

REF: BONN 2015

SUMMARY: THE IMPLEMENTATION OF THE TAX REFORM LEGISLATION WHICH RESULTED IN MANY WAGE EARNERS FINDING MORE (RATHER THAN LESS) OF THEIR PAYCHECK WITHHELD FOR TAXES HAS CREATED A POLITICAL STORM IN THE FEDERAL REPUBLIC.

WHAT WAS TO BE A SHOWPIECE OF REFORM LEGISLATION AND A MAJOR COMPONENT OF THE GOVERNMENT'S EFFORTS TO STIMULATE THE ECONOMY HAS BECOME A POLITICAL LIABILITY. CHANCELLOR SCHMIDT AND FINANCE MINISTER APEL ARE FRANTICALLY TRYING TO EXPLAIN THE PROBLEM AWAY BUT THE DAMAGE IS

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ALREADY DONE AND IS LIKELY TO HURT THE SPD IN THE FORTHCOMING LAENDER-ELECTIONS. END SUMMARY

1. WHAT HAPPENED IS SIMPLE IN POLITICAL TERMS EVEN IF THE TECHNICAL REASONS BEHIND IT ARE COMPLEX. ON THE FIRST PAYDAY IN JANUARY, AFTER THE NEW TAX LEGISLATION CAME INTO EFFECT, MANY PEOPLE WHO THOUGHT THEY WOULD BE PAYING LESS TAXES FOUND THAT THEY HAD MORE MONEY WITHHELD FOR TAXES THAN BEFORE. THE PRESS, PARTICULARLY THE ANTI-GOVERNMENT SPRINGER PAPERS HAD A HEY-DAY WITH THE PUBLIC REACTION. THE CDU/CSU, ALTHOUGH THEY VOTED FOR THE COMPROMISE TAX REFORM IN THE BUNDESTAG, WERE QUICK TO MAKE POLITICAL CAPITAL OUT OF THE GOVERNMENT'S SITUATION ("POISON TO THE GOVERNMENT'S EFFORTS TO STIMULATE THE ECONOMY -- PROOF OF BONN'S INCOMPETENCE").

2. THE GOVERNMENT ATTEMPTED TO EXPLAIN THAT MANY PEOPLE BECAUSE OF UNFAMILIARITY WITH THE NEW PROCEDURES WERE HAVING TOO MUCH WITHHELD FROM THEIR PAYCHECKS AND WOULD RECEIVE TAX REFUNDS AT THE END OF THE YEAR. THE FINANCE MINISTRY ALSO CLAIMED THAT WHEN SEPARATE CHILDREN SUPPORT PAYMENTS WERE CONSIDERED ALONG WITH THE NEW TAX RATES ALMOST TWENTY MILLION WAGE EARNERS WOULD BENEFIT FROM THE REFORM. ALL THIS SAID, HOWEVER, THE DISAPPOINTMENT AND VOCAL DISSATISFACTION OF A LARGE SEGMENT OF VOTERS (INCLUDING MANY SPD MEMBERS) MUST BE VIEWED WITH CONCERN BY SPD CANDIDATES IN THE FORTHCOMING ELECTIONS.

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R 061514Z FEB 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7764

INFO AMEMBASSY BERLIN

USMISSION USBERLIN

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3. THAT SCHMIDT AND APEL DID NOT FORESEE THESE PROBLEMS  
AND LAUNCH A PROGRAM TO EXPLAIN THE NEW SYSTEM IN AD-  
VANCE OF THE IMPLEMENTATION MUST BE VIEWED AS A POLITICAL  
BLUNDER. IT APPEARS THAT THEY WERE SO CONCERNED WITH  
THE MACRO-ECONOMIC EFFECTS TO STIMULATE THE ECONOMY AND  
THE REDISTRIBUTION OF INCOME THAT THEY DID NOT PAY  
ATTENTION TO THE POLITICAL SIGNIFICANCE OF THE IMPLI-  
MENTORY REGULATIONS. THE RESULT IS THAT SCHMIDT PROTEGE  
APEL HAS HAD HIS "WUNDERKIND" IMAGE TARNISHED AND THAT  
IN LAENDER ELECTIONS SUCH AS BERLIN, WHERE THE SPD WILL  
BE LUCKY TO SQUEAK BY, THE GOVERNMENT'S MISHANDLING OF  
THE TAX REFORM ISSUE WILL BE AN ADDITIONAL HANDICAP.

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4. APEL HAS MADE IT CLEAR THAT HE DOES NOT INTEND TO  
LET THE POLITICAL FUROR LEAD HIM IN THE DIRECTION OF ANY  
FURTHER TAX REDUCTIONS. IN AN INTERVIEW WITH "DIE ZEIT"  
- APEL HAS SAID THAT HE IS "IN THE  
PROCESS OF BECOMING THE MOST UNPOPULAR MAN IN THE FRG".  
(HE REMARKED RATHER WISTFULLY THAT THE MAJORITY OF THE  
PEOPLE ARE BEGINNING TO REALIZE THE ADVANTAGES OF THE  
REFORM -- BUT "IT IS A SILENT MAJORITY". HE DID SAY,  
HOWEVER, THAT HE "DOES NOT EXCLUDE THE POSSIBILITY OF  
A BONUS" FOR THOSE HAVING TOO MUCH WITHHELD FROM THEIR  
PAYCHECKS -- BUT THAT "THIS IS THE ONLY POINT HE WOULD

CONSIDER DISCUSSING".  
HILLENBRAND

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC STABILITY, WAGES, TAX RELIEF, PUBLIC ATTITUDES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 06 FEB 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
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**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750044-0296  
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**Legacy Key:** link1975/newtext/t19750268/aaaacisr.tel  
**Line Count:** 171  
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**Original Previous Classification:** n/a  
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**Previous Handling Restrictions:** n/a  
**Reference:** 75 BONN 2015  
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**Review Content Flags:**  
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**Review History:** RELEASED <28 MAY 2003 by BoyleJA>; APPROVED <29 MAY 2003 by GolinoFR>  
**Review Markings:**

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US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
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**Subject:** THE POLITICS OF TAX REFORM  
**TAGS:** PINT, GE  
**To:** STATE  
**Type:** TE  
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